

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Division of Boating and Ocean Recreation
Honolulu, Hawaii 96813

March 24, 2006

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

ISLAND OF HAWAII

Consent to Mortgage and Amendment for Extension of Lease Term,
General Lease No. H-82-4, GKM, Inc., Lessee, Kailua-Kona, North Kona,
Hawaii, Tax Map Key: 7-4-008-042.

APPLICANT AND REQUEST:

Consent to Mortgage from First Hawaiian Bank, Mortgagee, to GKM, Inc., in an amount not to exceed \$1,000,000.00.

For Mortgagor to qualify for this mortgage, Mortgagee requires extension of General Lease No. H-82-4 of 20 years, commencing on April 1, 1984 and expiring on March 31, 2039 for an aggregate term (initial term plus all extensions) of 55 years.

LEGAL REFERENCE:

Sections 171-22 and 36(b), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Honokohau Harbor situated at Kailua-Kona, North Kona, Hawaii, identified by Tax Map Key: 7-4-008-042, as shown on the attached map labeled Exhibit A, and A-1.

AREA:

4.083 acres, more or less.

TRUST LAND STATUS:

Section 5(B) Lands of the Hawaii Admission Act
YES x NO

ITEM J-1

CHARACTER OF USE:

Haul-out and repair facility for small marine vessels.

TERM OF LEASE:

Original term of 35 years, commencing on April 1, 1984 and expiring on March 31, 2019.

Requested extension of 20 years, commencing on April 1, 2019 and expiring on March 31, 2039.

ANNUAL RENTAL:

Current rent is \$60,000.00, due in quarterly installments of \$15,000.00 on January 1st, April 1st, July 1st, and October 1st of each year.

RENTAL REOPENINGS:

Rental reopenings in the original term were scheduled at the end of the 5th, 10th, 15th, 20th, 25th, and 30th years of the term, or on March 31, 1989, March 31, 1994, March 31, 1999, March 31, 2004, March 31, 2009, and March 31, 2014. The last rental reopening occurred on March 31, 2004

Reopening for the extended term shall continue on the same schedule every five years, reopening on March 31, 2019, March 31, 2024, March 31, 2029, and March 31, 2034 with the next scheduled reopening to be March 31, 2009.

Note: An appraisal is in progress for the reopening scheduled on March 31, 2004 and pending final collaboration of three appraisers on the rental value.

USE OF LOAN PROCEEDS:

Loan proceeds will be used to renovate the existing steel building and add additional square footage. Plans were approved by DLNR on December 29, 2004. GKM, Inc. also proposes to renovate the haul-out slip and travel lift to accommodate larger vessels and make repairs to existing buildings, parking lot, and fencing.

Use of funds as follows:

Foundation	\$ 150,000.00
Steel Frame	\$ 445,500.00
Rough Frame	\$ 86,000.00
Exterior shell, siding, windows and doors	\$ 100,000.00
Electric	\$ 150,000.00

Plumbing	\$ 50,000.00
Paint	\$ 18,500.00
TOTAL COST OF IMPROVEMENTS:	\$1,000,000.00

DCCA VERIFICATION:

Place of business registration confirmed:	YES <u>x</u>	NO <u> </u>
Registered business name confirmed:	YES <u>x</u>	NO <u> </u>
Applicant in good standing confirmed:	YES <u>x</u>	NO <u> </u>

APPLICANT REQUIREMENTS:

Applicant shall be required to pay for an appraisal for the immediate rental reopening.

REMARKS:

GKM, Inc. dba Gentry's Kona Marina operates the only marina/haul-out facility at Honokohau Harbor located on the Big Island. Harbor Lease No. H-82-4 was publicly auctioned in 1982 and executed on April 8, 1983. The term of the lease began on April 1, 1984, and runs for thirty-five years. It is a commercial-industrial lease issued for marine or marine related purposes. Currently GKM, Inc. has, and continues to operate in compliance with its lease terms and conditions. They have consistently made on-time lease payments and maintained the bond and insurance required by the lease agreement. They are current with rent payments, and have no history of default.

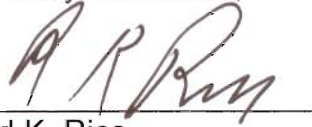
Currently Kona has seen a considerable amount of development, and growth. In addition, recently Jacoby Development, Inc. (JDI) has been selected by the State to develop a portion of land adjacent to Honokohau Harbor. As part of this proposal, JDI is planning construct a harbor alongside the existing Honokohau Harbor with an approximately 800 slips planned. Currently Honokohau has approximately 270 slips. The requested twenty year extension will allow GKM, Inc. an opportunity to secure a loan for the necessary funds to improve its facilities and enhance existing services to accommodate this growth.

RECOMMENDATION:

That the Board, subject to the Applicant fulfilling the Applicant requirement listed above:

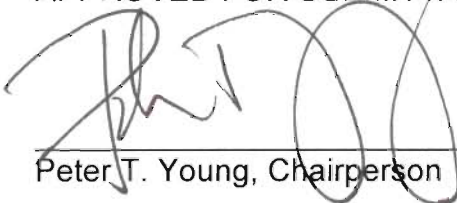
1. Consent to the mortgage between **GKM**, Inc., Mortgagor, and First Hawaiian Bank, Mortgagee, subject to the following:
 - A. The loan proceeds shall be used solely for the operations or improvements of the leased premises as identified in the "Use of Loan Proceeds" section above. The Lessee shall maintain records of loan expenditures, which may be inspected by the Department;
 - B. The standard terms and conditions of the most current consent to mortgage form, as may be amended from time to time.
 - C. Review and approval by the Department of the Attorney General.
 - D. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
2. Authorize the extension of General Lease No. H-82-4 under the terms and conditions cited above, which are by this reference incorporated herein.
 - A. The standard terms and conditions of the most current lease extension form, as may be amended from time to time.
 - B. Review and approval by the Department of the Attorney General.
 - C. Such other conditions as may be prescribed by the Chairperson which are in the best interests of the State.

Respectfully Submitted,

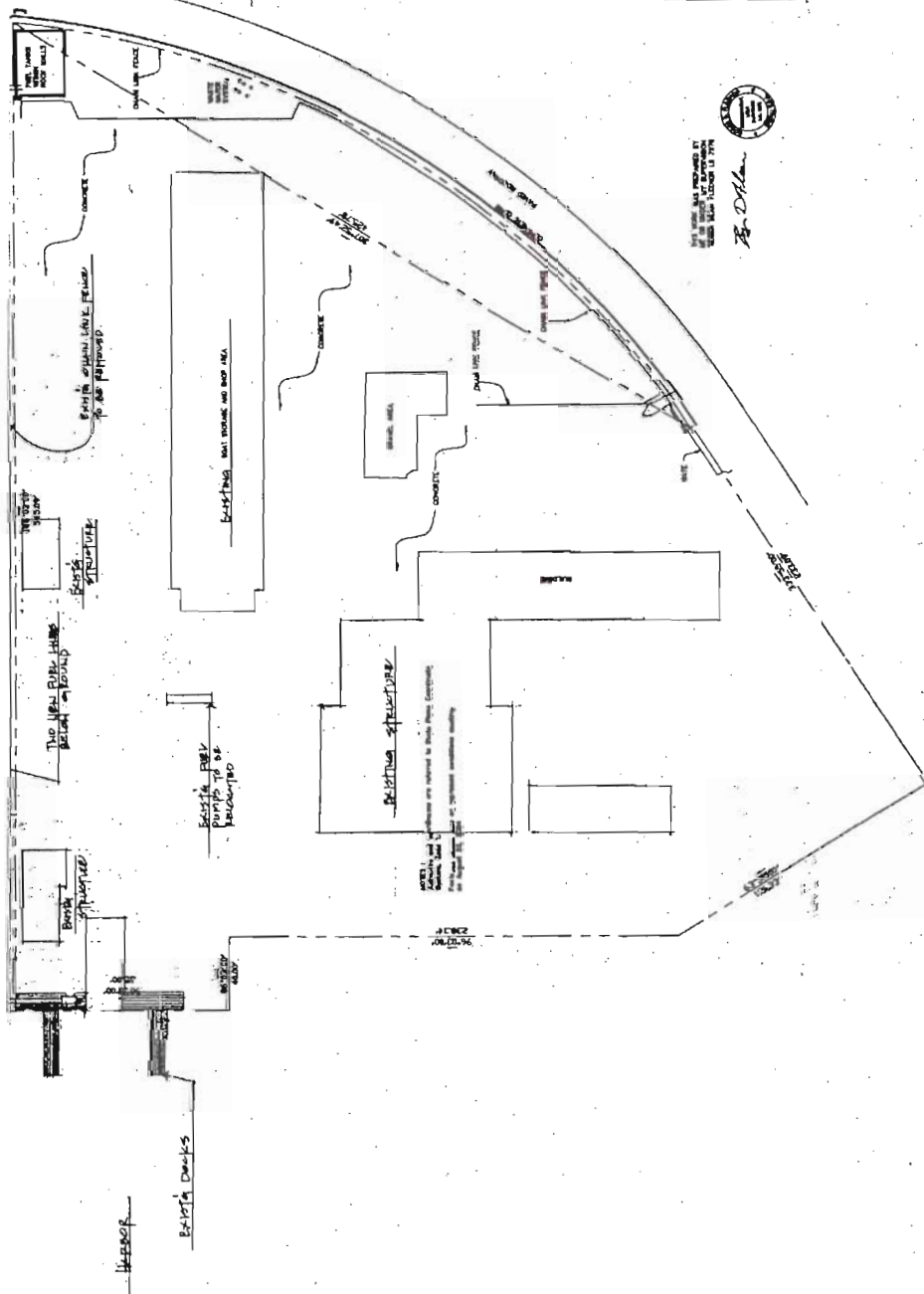


Richard K. Rice
Administrator

APPROVED FOR SUBMITTAL



Peter T. Young, Chairperson



PLOT PLAN

MAP OF PARCEL 42
HONOKOHAU MARINA
T.M.K. 3-7-4-008-042
ISLAND & COUNTY OF HAWAII
STATE OF HAWAII
SHOWING EXISTING FEATURES

SCALE : NTS
DATE: AUGUST 20, 2004



...the most important...

E. D. Allen

CENTRY'S KONA MARINA
T.M.K. 7-4-008:042
KAHUA-KONA, HAWAII

Legend

TO TMK 7-4-000046

EXHIBIT A-1